

Agenda – Economy, Infrastructure and Skills Committee

Meeting Venue:

Committee Room 1 – Senedd

Meeting date: 15 January 2020

Meeting time: 09.25

For further information contact:

Robert Donovan

Committee Clerk

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Private pre-meeting (09.25–09.30)

1 Introductions, apologies, substitutions and declarations of interest

2 Paper(s) to note

2.1 Letter from the Chair Public Accounts Committee re Welsh Government financial support for business

(Pages 1 – 5)

Attached Documents:

EIS(5)–02–20(P1) Letter from the Chair PAC

3 City Deals update: Growing Mid Wales Partnership

(09.30–10.30)

(Pages 6 – 21)

Councillor Ellen ap Gwynn, Leader of Ceredigion County Council

Councillor Rosemarie Harris, Leader of Powys County Council

Mr Eifion Evans, Chief Executive of Ceredigion County Council

Mr Nigel Brinn, Corporate Director: Economy & Environment of Powys County Council



Attached Documents:

EIS(5)-02-20(P2) Research Briefing

EIS(5)-02-20(P3) Evidence from Growing Mid Wales Partnership

Break

(10.30-10.45)

4 City Deals update: North Wales Growth Deal

(10.45-11.45)

(Pages 22 – 26)

Councillor Dyfrig Siencyn, Chair of the North Wales Economic Ambition Board

Alwen Williams, Programme Director for the North Wales Economic Ambition Board

Councillor Mark Pritchard, Vice Chair of the North Wales Economic Ambition Board

Attached Documents:

EIS(5)-02-20(P4) Evidence from North Wales Economic Ambition Board

Private de-brief (11.45-12.00)

Andrew Slade
Director General – Economy, Skills and
Natural Resources Group
Welsh Government

10 January 2020

Dear Andrew,

Welsh Government financial support for business

Thank you for the additional written evidence that you have provided to the Committee following our evidence sessions on financial support to business during summer 2019. Rather than reporting formally at this stage, I am writing to set out some of the key areas of concern to the Committee. I am not expecting a detailed response at this stage but would welcome an update in summer 2020 to inform a follow-up evidence session. The clerking team will be in touch to make the necessary arrangements and to discuss the information that would be helpful to obtain to inform that session. For ease of reference, the Committee's inquiry page is available [here](#).

I recognise too that some of the evidence received and issues raised during our inquiry is relevant to the work of the Economy, Infrastructure and Skills Committee. I am therefore copying this letter to Russell George AM, Chair of that Committee.

In broad terms, the Committee echoes some of the issues emphasised by the Auditor General in his November 2018 report. It is clear that the Welsh Government still has work to do to assess and demonstrate transparently the overall value for money of its financial support to business and against a broader ranges of measures. While there were subsequent changes in the overall strategic policy direction it is concerning, and unacceptable, that the Welsh Government did not fulfil its own commitment to report publicly on its progress in delivering 'Economic renewal: a new direction'. This lack of reporting hinders accountability and effective scrutiny by the Assembly. We look to the Welsh Government to rectify this in the context of the new Economic Action Plan (EAP) and the commitments put in place for more comprehensive reporting capability from 2020–21 in response to the Auditor General's recommendations.



Members noted the direction of travel envisaged under the EAP and the aim of being clearer about what the Welsh Government expects from businesses in return for financial support. In time, we would welcome further details about just how demanding the Welsh Government is being in this context. For example, we are aware that the de-carbonisation agenda already features clearly in the design of the operating model for the EAP, but we will be looking specifically to see practical examples of how the expectations have been strengthened in the wake of the declaration of a climate emergency.

While we acknowledge some of the wider uncertainty that has been associated with Brexit to date, we were concerned about the pace of progress in embedding the new arrangements under the EAP. This includes considering how these expectations might play out across the full range of financial support provided by the Welsh Government and the Development Bank even if, as suggested to us, the Development Bank's primary focus is on generating an economic return. We also noted the view from the Federation of Small Businesses that the Welsh Government still has work to do to ensure that the business community understands and embraces the new landscape of the EAP. It is important that there is a coherent and coordinated approach to financial support to business that is understood by key stakeholders, including the links through to the support available through the British Business Bank.

I have set out below some observations on other specific matters:

Lender of last resort: as discussed in our evidence session, while this phrase has been used previously by the Welsh Government to describe its approach to financial support to business, it can be difficult to square this with some of the financial support interventions that the Welsh Government has made. We encourage the Welsh Government to reflect on how it can better articulate to businesses how it sees its role and the difference between Welsh Government financial support and the support available through the Development Bank.

Budgeting for business support and the relative value for money of different activity: We discussed the practical challenges in budgeting for financial support for business, although the Welsh Government had nevertheless accepted the Auditor General's recommendation in this regard.

More broadly, the evidence we received emphasised that direct financial support, repayable or otherwise, was only one part of what the business community is looking for from the Welsh Government, with witnesses referencing spending on general business advice services, entrepreneurship support, development of the skills base or



improved infrastructure. We recognise that there is no perfect balance and that there may be multiple interventions that all contribute to certain outcomes. However, we consider that there is an opportunity to reflect – internally through dialogue between Ministers and Officials as well as externally with stakeholders – on whether the current allocation of resources across different areas of activity is maximising the impact of that spending on the Welsh Government’s wider objectives. This includes looking again at the balance between grant and loan finance where, as you noted, the latter can be recycled.

In addition, we were struck by some of the [evidence](#) we received from the Federation of Small Businesses about the relative returns from support for businesses of different sizes. In his report, the Auditor General encouraged the Welsh Government to adopt more of an investment portfolio approach to manage its overall risk exposure in a coherent way. In a similar way, we see portfolio management and reporting as a way of helping the Welsh Government identify whether it could secure better value for money by shifting the overall balance in its distribution of financial support, whether by sector or by business size.

Awareness of Business Wales and the Development Bank: We welcome the evidence we heard about efforts that had been made to strengthen links between Business Wales and the Development Bank. We also heard about improved satisfaction with the Business Wales service and how the Development Bank may be seen as more effective than Finance Wales, including evidence of greater cross-government engagement. Nevertheless, the evidence we received suggested there is scope to further raise awareness of the organisations and their functions across the business community. We would also encourage the Welsh Government to keep under review the merits of any further integration of these functions.

Ministerial Advisory Board: You explained that there were some potential advantages in continuity of membership on a temporary basis following the difficulty you had faced recruiting to the Board. Nevertheless, we will be looking for an update on the progress that has since been made to improve the diversity of the Board. We consider diversity of membership within the Advisory Board to be important in advising on how support for business (financial or otherwise) can be better targeted to support under-represented groups than appears to have been the case to date, despite certain activities such as the Female Entrepreneurship Plan.

Financial support to Dawnus: We recognise the potential commercial sensitivity when considering whether the Welsh Government could/should have shared information about the financial support provided to Dawnus with other contracting authorities. We



have also noted the emphasis that you have placed on those organisations' own due diligence arrangements.

Nonetheless, we were also interested in communication within the Welsh Government itself in the context of the 21st Century schools programme projects which the Welsh Government co-funds. Your responses to date have left us with the impression that there was no cross-government communication with colleagues in your education department about the financial support package to Dawnus. We find that surprising and assume that your own due diligence around the financial support package and monitoring of Dawnus's recovery plan might have considered the contribution of existing and prospective public sector contracts to its financial position.

Before our evidence sessions on financial support to business, we had already explored with you issues relating to the sharing of business intelligence as part of work on public procurement. Again, you emphasised at that time the responsibility of individual organisations for relevant due diligence during contract award and ongoing contract management and that care needed to be taken in how business intelligence information is used. However, your responses left us with the impression that the work undertaken to strengthen business intelligence arrangements was in support of wider public sector procurement activity and to support communication across government. By way of reminder, you stated previously that:

“Work on due diligence has included the identification and establishment of portfolios of key suppliers which are then regularly monitored. Through these portfolios, the BI team communicate changes to the reported financial results of key suppliers to the relevant business area and senior managers for further analysis and action as necessary. This process covers suppliers across National Procurement Service, Welsh Government and wider Welsh Public Sector procurement activity.

The BI team has formed links with Commercial Intelligence colleagues at Crown Commercial Service and UK Cabinet Office. BI officials receive weekly updates on Cabinet Office strategic suppliers. This intelligence is reviewed, and where appropriate, escalated to senior officials for consideration and/or action.

To strengthen relations further, a monthly meeting is being established between BI officials and UK Cabinet Office senior procurement colleagues. This meeting will be used to discuss and share supplier due diligence



intelligence on a regular basis, with the first meeting taking place on 29 April.”

If, as suggested above, there is sharing of due diligence intelligence between the UK government and Welsh Government, this raises the question of why a similar principle cannot hold across Welsh public services, and perhaps even more so in the context of the First Minister’s emphasis on creating a ‘one public service’ culture. We would therefore be keen in any further scrutiny to clarify the scope of the business intelligence sharing arrangements that you described previously. At the very least, the concerns that have been raised locally in the case of Dawnus-related projects in Powys suggest that the Welsh Government may need to explain clearly to other public authorities its position on this matter (in the event that similar issues arise in future).

Finally, the Committee remains concerned about the general lack of transparency regarding its financial support packages and grants. This issue remains a reoccurring theme in our work with us having previously raised concerns on this in our reports on [Pinewood](#) and [Scrutiny of Accounts 2017 – 18](#).

During the course of our work on Business Finance we have revisited our longstanding concerns about the withholding of financial information on grounds of commercial sensitivity. We feel that this is too freely used by the Welsh Government as the reason for non-disclosure in all cases – given information is published on all transactions over £25K.

Our report on the Scrutiny of the Accounts 2017 – 18 highlighted that there needed to be a wider discussion of what information can be published to fulfil a legitimate desire for transparency about how public money is being spent. We ask that the Welsh Government undertake more work to review its approach to releasing financial information to ensure it is as transparent as possible.

Yours sincerely,

A handwritten signature in black ink that reads "Nick Ramsay". The signature is fluid and cursive, with a long horizontal flourish at the end.

Nick Ramsay AM
Chair

cc. Russell George AM, Chair – Economy, Infrastructure and Skills Committee



Agenda Item 3

Document is Restricted

1. Overview

- 1.1. The Growing Mid Wales Partnership welcomes the opportunity to provide an update to the NAFW Economy Infrastructure and Skills Committee's inquiry into City Deals and the regional economies of Wales.
- 1.2. In October 2019 an announcement of £55 million for a Mid Wales Growth Deal was announced by UK Government. Growing Mid Wales recognises the need to respond to the challenge by both Governments to develop our Growth Deal proposal at pace. Whilst the timescales are challenging, we are currently producing a proposition document to articulate our regional vision and ask by the deadline of March 2020. It is therefore timely to provide an update to the EIS committee on progress.

2. Progress

- 2.1. Since last providing evidence to the committee in early 2018, significant progress has been made in developing a regional vision for Growing Mid Wales. Significant pieces of work have been undertaken to help shape regional proposals and ensure the proper foundations are in place to deliver a successful future programme of regional investments, including a Mid Wales Growth Deal.
- 2.2. Work to date includes the production of a Strategic Economic Priorities Report and Economic Baseline Report by AECOM, and a series of Growth Deal Workshops in Spring 2019. A lot of work has also gone into various one-to-one discussions and ongoing engagement with key stakeholders.
- 2.3. Current commissions in progress to provide a solid evidence base for interventions in the region include a Mid Wales Employment Sites and Premises Assessment and Action Plan. Growing Mid Wales are also working closely with WG Energy Service and The Carbon Trust on the formation of a Mid Wales Energy Plan.

3. Workstreams

- 3.1. Building on this evidence base and extensive engagement, we recognise further work is required to shape the regional narrative we have developed to date into tangible proposals for investment. Broad thematic areas have been identified around which to organise and structure thematic work streams, to develop detailed thinking and start shaping proposals.
- 3.2. The work streams identified at present are:
 - Advanced Research & Innovation (Radio Spectrum, Agri & Bio Innovation, Advanced manufacturing, Hydrogen etc.)
 - Energy (Low Carbon, Hydrogen and Circular Economy)
 - Tourism
 - Food
 - Skills
 - Connectivity (Transport & Digital Infrastructure)

- Business (Support, Sites & Premises)

4. Governance

- 4.1. Under the Inter Authority Agreement agreed on the 20th November 2019, the two Local Authorities have agreed to establish a Joint Committee for the purpose of establishing good and clear governance around the development of an OBC for the Growth Deal and for approval of Heads of Terms with the WG and the UK Government. The Authorities have also agreed that at present there will be no host authority and that the Joint Committee will operate on a joint partnership basis, dividing host authority functions equally between the two Local Authority partners. The IAA will be formally signed at the Joint Committee due to be held on the 17th of January.
- 4.2. It is recognised that a further and more detailed Inter Authority Agreement will be required once the Heads of Terms for the Growth Deal have been agreed by the Authorities, the WG and the UK Government.

5. Scrutiny

- 5.1. It has been agreed a Joint Overview and Scrutiny Committee will be required to oversee the work of Growing Mid Wales with regards to the Growth Deal. It is recognised by all partners that establishing proper scrutiny arrangements at the outset of the process is vital. The Joint Overview and Scrutiny Committee will be responsible for scrutinising the work of the Joint Committee, including the development of Growth Deal projects and monitoring progress and outcomes.

6. Economic Strategy Group

- 6.1. An Economic Strategy Group consisting of key employers from the region has been established to provide strategic direction and oversight on the Mid Wales Growth Deal. The Chair of the ESG will attend Joint Committee meetings in an advisory capacity. Fiona Stewart, director of The Green Man Festival, has recently been selected as Chair of the ESG following a nomination process.

7. Regional Programme Office

- 7.1. The Growing Mid Wales Joint Committee has agreed the approach to establishing a Programme Office to support the management and delivery of regional activity for Growing Mid Wales. The Committee has also authorised officers to submit a bid for revenue funding from Welsh Government, and to design a complementing bid for ESF funding. Discussions are currently ongoing with Welsh Government regarding both streams of funding and ensuring alignment with evolving WG regional structures and work.

8. Wider Regional Vision and Policy Context

- 8.1. The region is clear that it needs to work with both Welsh and UK Government in articulating its broader vision for economic growth across the region. The Growth Deal will form a key part of realising and complementing this vision as part of a broader funding mix. It requires a galvanising of shared priorities and interests to ensure the region succeeds not only in developing a credible Growth Deal proposition, but also positions itself strongly within and evolving policy and funding framework.
- 8.2. There is recognition this work sits in a very rapidly changing policy landscape. Growth Deals in Wales are, by their very nature, a fluid environment which vary from one deal to the next. There is no “set template” how to bring forward a Growth Deal and each Deal in Wales is different. The strategic and institutional context will differ, so will the political and policy context as these deals are brought forward in different timeframes.
- 8.3. There are also uncertainties surrounding the future of regional investment, both in terms of funding source and scale of funding available. Both the policy and funding landscape has the potential to be dramatically different in just a few years’ time, and our regional programme will need to be both robust and flexible enough to meet these challenges.



INQUIRY INTO CITY DEALS AND THE REGIONAL ECONOMIES OF WALES
Response by the North Wales Economic Ambition Board (NWEAB)

Over two years ago, the Economy, Infrastructure and Skills Committee of the National Assembly for Wales undertook an inquiry into City Deals and the Regional Economies of Wales.

The committee is now writing to the leaders of the City/Regional Deals who gave evidence to last year's inquiry to find out what has progressed in their region since the inquiry.

This is an update on behalf of the NWEAB.

1. Background

- 1.1. The North Wales Economic Ambition Board is a Joint Committee comprising of all the 6 Local Authorities in North Wales along with the two Colleges, two Universities and the Private Sector.
- 1.2. The Board was established to support the development of the region's economy and has placed considerable emphasis on the successful delivery of the North Wales Growth Deal.
- 1.3. The NWEAB adopted the "Growth Vision for the Economy of North Wales" in September 2016. The vision set out a collective and strategic ambition for North Wales for infrastructure development; skills and employment; and business growth.
- 1.4. The NWEAB developed a Proposition Document, this was adopted during October 2018. The Proposition Document sets out the programmes and projects to be considered for inclusion in the Growth Deal.
- 1.5. The NWEAB approved "A Growth Deal for North Wales – Implementation Plan" during March 2019. The Plan was prepared in the context of the North Wales Growth Vision. The Implementation Plan includes details of the high-level activities that will support the delivery of the Growth Deal, and provides details of the nature of each project funded through the deal; their outcomes and benefits; and the indicative timeline and inter-dependencies between the projects.

1.6. The Implementation Plan along with the Outline Business Cases were formally submitted to both Governments during March 2019. Collaborative feedback have been received on the Outline Business Cases, and Ministerial Challenge Sessions were held in June 2019.

2. North Wales Growth Deal

2.1. The North Wales Growth Deal aims to deliver clean growth, support up to 5% GVA uplift, create up to 4,000 new jobs, generate over £500million direct private sector investment.

2.2. The UK and Welsh Governments have committed a financial envelope of £240 million to deliver 7 Programmes, and 14 Projects in the region.

2.3. The North Wales Growth Deal includes the following Programmes:

- Low Carbon Energy;
- Advanced Manufacturing;
- Land-Based Industries and Tourism;
- Land and Property;
- Skills and Employment;
- Digital;
- Strategic Transport.

2.4. NWEAB and both Governments signed the Heads of Terms Agreement during November 2019. The Heads of Terms confirm the overall investment of £240m by Welsh Government and UK Government to deliver the North Wales Growth Deal.

3. Governance

3.1. The NWEAB formed as a Statutory Joint Committee on the 1st of February, 2019.

3.2. Governance Agreement 1 has been developed as the legal framework for establishing the North Wales Economic Ambition Board as a Joint-Committee.

3.3. The Governance model is restricted under the Local Government Act of 1974 and is not ideally suited for how the Board wishes to operate. For example, non-local authority partners cannot be voting members of an Executive Joint-Committee. However, the model is the best one available under current legislation, and there is a full commitment to engage with key partners and work in an inclusive way. This is reflected in the arrangements of the Board to seek to achieve a consensus before any proposal is taken to vote.

- 3.4. Over the coming months we will progress to Governance Agreement 2 which will provide greater detail and incorporate the Heads of Terms Agreement with both Government. It will develop the current governance model to meet the needs of the implementation phase.
- 3.5. The NWEAB is empowered to establish sub-committees. A Transport Sub-Committee is currently in place to co-ordinate regional transport planning and investment, in partnership with the Welsh Government.
- 3.6. A Business Delivery Board has been established, the Board acts as the voice of businesses and employers in the region. It has a role in challenging and advising the NWEAB on matters relating to the Growth Vision and the Growth Deal. We are currently recruiting a Chair for the Business Delivery Board.

4. Programme Office

- 4.1. A Programme Office has been established to progress the development and delivery of the Growth Vision and Growth Deal. The Programme Office will be led by a Programme Director, who will be accountable to the NWEAB.
- 4.2. The Programme Office will be flexible and agile in its design and operations, and will evolve over time.
- 4.3. 5 appointments have been made to the Programme Office, and all will be in post by January 2020. These roles include the Programme Director, Operations Manager, Digital Programme Manager, Energy Programme Manager and Land & Property Programme Manager.
- 4.4. The NWEAB have submitted a funding application to WEFO to develop the Programme Office through a Team North Wales approach which will deliver the Growth Vision.

5. Funding

- 5.1. Funding for the Growth Deal will be provided on a flat funding profile over a 15 year period. Given that the projects will be delivered over a much shorter time scale than this to ensure maximum impact for the economy, there is a cash flow issue to be managed. In essence, the Local Authorities could need to manage the accelerated cash flow through borrowing.
- 5.2. The NWEAB is seeking some flexibility in the funding profile, especially in relation to the possible use of increased NNDR from the projects contained in the Growth Deal, as a way of offsetting the additional revenue costs that would

otherwise impact on Local Authority budgets. Additional flexibility to vary the flat funding profile would also help offset the financial burden.

6. Business Case Development

- 6.1. Outline Business Cases are in place for all the 14 projects.
- 6.2. Now that the NWEAB have agreed the Heads of Terms Agreement with both Governments, we will need to progress with the development of the 5 Case Business Models for the programmes/projects.
- 6.3. The Welsh Government arranged Better Business Case training for NWEAB Officers. A number of Officers from all partners attended the training, and successfully achieved the accreditation.
- 6.4. The Programme Managers will lead on the development of the Business Cases, with support from a Quality Assurance Group.
- 6.5. The time scale for developing the business cases will vary from project-to-project.
- 6.6. The Business Cases will be developed in line with HM Treasury Green Book and Better Business Cases methodology. The Business Cases will be approved by Government to confirm that the Programmes and Projects are viable, value for money, sustainable and State Aid compliant.

7. Issues emerging from the Growth Deal Development

- 7.1 A number of issues have impacted on progress with achieving the agreement to the Heads of Terms and the deal as a whole. There are a number of lessons learnt from the North Wales experience that could be helpful to future deals. In particular, the lengthy delay experienced in achieving the final Heads of Terms when most outstanding issues had been agreed, could have been avoidable. Some areas where our experience might usefully help shape future programmes, are detailed below.
- 7.2 **Clarity over process and procedure** – Throughout the process there has been a lack of clarity over the process and procedure to be followed. This has been explained by the comment that it is for the region to determine the projects that best deliver the growth strategy etc. This lack of guidance has however led to a number of delays where an absence of clarity has led to project development taking longer than expected. There have also been delays due to the process of signing of documents being unclear, a lack of clarity over the requirements for project development and complexity of arrangements

generally slowing down the programme. Whilst we understand the bespoke nature of Growth Deals so they can be tailored to the requirements of a region, some outline of processes and guidance on developing the bids would speed up approvals.

- 7.3 **Strategy Alignment** – The lack of alignment between Government policy between Westminster and Cardiff has caused issues on occasions. Whilst a divergence of policy is to some extent expected, the position taken when projects do not neatly align with policy is inconsistent with the intent to develop projects that support growth in the region. The ability to shape project development to meet the economic requirements of the region, even where this may not align neatly with government policy, would have been helpful.
- 7.4 **Funding Levels** – Clarity over the level of funding available to support the deal would have been helpful at the outset. This could have prevented some unrealistic expectations of funding levels for some projects.
- 7.5 **Business Case Expectations** – The requirements to develop detailed business cases at the early stages of the programme requires disproportionate investment by the region, parts of which have been abortive. We recognise the need to have clear and detailed business cases to support the final investment case, however significant investment in up-front development of projects has been needed, with a possibility that expenditure could be abortive. We would support the development of guidance that would minimise the risk of scarce financial resource expenditure being abortive.